

PERSPECTIVES

SUMMER 2004

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THE OSC WEBSITE WWW.OSC.GOV.ON.CA INCLUDES:

INFORMATION ON THE OSC; INVESTOR INFORMATION; RULES AND REGULATIONS; ENFORCEMENT INFORMATION AND MARKET PARTICIPANTS.

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Perspectives welcomes comments. Comments should be sent to the Ontario Securities Commission, Perspectives, 20 Queen St. West, Toronto ON M5H 3S8. Emails can be forwarded to perspectives@osc.gov.on.ca

ONTARIO SECURITIES COMMISSION REPORTS

An overview of regulatory activities in Ontario that have an impact on capital markets. Copies of Notices and other documents referenced below are available on the Commission's website at www.osc.gov.on.ca.

Approach Mini-Tenders With Caution

The Ontario Securities Commission, concerned that investors might be selling stock at below-market price based on misleading information, reminds investors to carefully review any offer for their shares. Firms or individuals (offerors) who seek to buy shares at below-market price should warn shareholders that the offer price is below the market price and clearly calculate the final price to be paid for the shares. In addition, they should describe investors' right to withdraw from the offer, known as a mini-tender.

What are the risks? You may misunderstand the offer and feel pressured to sell the shares at the offer price, or not realize that the offer price is lower than what you could get by selling the shares on the open market. Offerors that rely on such misunderstandings may be violating the anti-fraud provisions of securities law.

The offerors can terminate their offer at any time, delay payment for the shares, and change the offer. They may decide not to buy the shares at the last minute. Mini-tenders usually benefit the offerors at the expense of investors.

If you suspect a scam, call the Ontario Securities Commission at 1-877-785-1555. Learn more about investment fraud and other investment topics on-line at www.investorED.ca.

OSC Teams Begin On-Site Visits As Mutual Fund Probe Moves Into Phase Three

On May 10, 2004, the OSC announced that joint Compliance and Enforcement teams would begin Phase Three of a probe into potential market timing and late trading abuses by conducting on-site reviews of certain mutual fund managers identified in the second phase of the inquiry. The reviews, which will take place over the next few months, follow an analysis of procedures and raw data requested by the

Commission from 31 fund managers earlier this year. Based on the findings from the initial visits, teams could conduct site reviews of as many as half of the list of 31.

"Right now, we're following up on preliminary indicators identified in the first two phases of our inquiry," OSC Chair David Brown said. "Once Phase Three is completed, we'll take any regulatory action – including enforcement proceedings – that may be necessary to reaffirm investors' trust in the mutual fund industry."

OSC to Review Risk Assessment Questionnaire for Advisers and Fund Managers

In a follow-up to a review conducted in 2002, the OSC has requested information from advisers and fund managers on their structure and their business operations to evaluate the potential impact on investors from a risk perspective. The online questionnaire is seeking details that will enhance the risk assessment model used by OSC staff to focus compliance field reviews in the most effective and efficient manner.

A similar questionnaire was circulated in 2002, and contributed to the ongoing development of the compliance risk assessment model. "Now that we have used the risk assessment model for over a year, we are able to better understand where it could be improved, and how we can streamline our information-gathering process," said Marianne Bridge, Manager of Compliance at the OSC. "Information from our market participants will help us to continue to focus the model so it provides top-notch guidance in our day-to-day compliance activities."

The risk criteria are designed to identify and target the most likely instances of non-compliance with securities laws. Advisers and fund managers were asked to complete the online risk assessment questionnaire by May 28, 2004.

OSC Warns of Risks Involved in Playing the FOREX Market

The OSC is warning the public that currency trading and foreign exchange trading, also known as FOREX or FX trading, is for those that can afford to take the risk – and may be fraudulent. The Commission notes that the inexperienced public may be solicited through newspapers, radio, television and the Internet to trade currency, buy software or to sign up for trading courses. The ads promise that these programs will make you a winner, but the fine print provides a more accurate picture of what you can more likely expect.

The following tips will help you protect your money:

Check the fine print in the ads. Often it's a better prospect for investment tips than the software or seminar itself. If you suspect a scam, call the Ontario Securities Commission at 1-877-785-1555. You can learn more about investment fraud and other investment topics on-line at www.investorED.ca.

INTERNATIONAL REPORTS

An overview of OSC activities with international organizations to improve the regulation of financial services throughout the world.

OSC Elected to IOSCO Executive Committee

The Ontario Securities Commission was elected to the Executive Committee of the International Organization of Securities Commissions (IOSCO) at the 29th Annual IOSCO Conference held in Amman, Jordan from May 17 to May 20. The OSC's term is for two years. The OSC will be represented on the Executive Committee by Commission Chair David Brown, who is a Past Chair of IOSCO's Technical Committee.

The Executive Committee is the governing body of IOSCO responsible for achieving the organization's objectives. It has two working sub-committees, the Technical Committee and the Emerging Markets Committee. The OSC has long been a member of, and will continue to participate in, the Technical Committee, which brings together regulators from fourteen of the larger, more developed and internationalized securities markets.

IOSCO Adopts Principles on Client Identification and Beneficial Ownership for the Securities Industry

Securities regulators have a strong interest in ensuring that securities firms employ appropriate "client due diligence" processes to verify the identity of their clients and the underlying beneficial owners of client accounts, learn about and monitor their clients' circumstances and investment objectives, and maintain appropriate records regarding this information. Effective client due diligence processes facilitate investor protection, inhibit securities fraud and market abuse and reduce the risk that securities markets will be used to advance illegal activities, such as money laundering.

OSC staff participated in an IOSCO Task Force that developed a statement of *Principles on Client Identification and*

Beneficial Ownership for the Securities Industry. IOSCO's full membership recently endorsed this Statement of Principles at its Annual Meeting in Amman. The Statement sets eight high-level principles, as well as providing more detailed guidance and recommendations.

This Statement of Principles can be downloaded from IOSCO's on-line Library at www.iosco.org (Public Document #167).

IOSCO Issues Report on Transparency of Corporate Bond Markets

To address issues relating to the evolution of corporate bond markets, IOSCO's Technical Committee has published a report on *Transparency of Corporate Bond Markets*. The report reviews trading methodologies, transparency arrangements and regulatory frameworks for corporate bonds in sixteen capital markets in the Americas (including Ontario and Quebec), Europe and the Asia-Pacific Region. It also compares differences in transparency arrangements in these jurisdictions and assesses the principal issues that arise in respect of corporate bond market transparency.

The report also proposes five core measures directed at the implementation of a key IOSCO objective that regulation should promote transparency of trading. These recommendations focus on the characteristics of the bond market, implementation of trade or transaction reports, implementation of information gathering and surveillance systems, and an assessment of the level of transparency to facilitate price discovery and market integrity.

This report can be downloaded from IOSCO's on-line Library at www.iosco.org (Public Document #168).

IOSCO to Conduct Survey on Auditor Oversight

In October 2003, IOSCO published Statements of Principles on *Auditor Oversight* and *Auditor Independence*. These documents can be downloaded from IOSCO's on-line Library at www.iosco.org (Public Document Nos. 133 and 134).

IOSCO has asked its Technical and Emerging Market Committees to follow up on these initiatives by conducting a comprehensive survey on existing practices and the legal frameworks for auditor oversight and auditor independence. Commission staff will be participating in the preparation of this survey and progress report. IOSCO intends to prepare a progress report on implementation of these principles and share the results of its survey with the Financial Stability Forum later this year.

International Joint Forum Issues Report on Financial Risk Disclosures

In April 2001, a working group (the Fisher II Group) established by the International Joint Forum (IJF) and the Committee on the *Global Financial System* of the G-10 Central Banks published a report recommending that banks, insurance companies and securities firms provide enhanced public disclosure about the financial risks to which they are exposed. These recommendations were intended to facilitate market discipline, by providing market participants with more information about the decisions that financial firms make about risk and return. The recommendations covered: (1) market risk in firms' trading activities; (2) firm-wide exposure to market risk; (3) funding liquidity risk; (4) credit risk; and (5) insurance risk.

In 2002, the IJF established a working group on enhanced disclosure to assess the extent to which the Fisher II Group's recommendations have been implemented by major firms in the larger, more developed financial markets (including Canada). OSC staff participated in the working group.

The working group's findings are summarized in the IJF's recent report, *Financial Disclosure in the Banking, Insurance and Securities Sectors: Issues and Analysis*. The working group found that, while many firms have adopted some of the recommendations, some recommendations have not been fully adopted by a significant number of firms.

The report also summarizes recent initiatives by regulators and standard-setters to enhance financial risk disclosures and identifies three areas where further work should be carried out to identify ways in which enhanced disclosures can be provided to the public. These are: (1) disclosure of risk concentrations; (2) measures of potential future exposure; and (3) funding liquidity risk.

This report can be downloaded from IOSCO's on-line Library at www.iosco.org (Public Document #166).

For more information about these and other international initiatives, please contact **Janet Holmes**, Manager, International Affairs, (416) 593 8282, jholmes@osc.gov.on.ca.

CANADIAN SECURITIES ADMINISTRATORS REPORTS

The CSA, a council of the 13 securities regulators of Canada's provinces and territories, coordinates and harmonizes regulation for the Canadian capital markets.

Securities Regulators Propose Uniform Securities Transfer Act

The CSA's Uniform Securities Transfer Act Task Force has released for public comment a revised consultative draft of a proposed provincial Uniform Securities Transfer Act (USTA). The USTA project is unrelated to the CSA's Uniform Securities Legislation project. The proposed USTA is not securities regulatory law, but is commercial property-transfer law, governing the transfer and holding of securities and interests in securities. The USTA requires conforming amendments to the common-law provincial Personal Property Security Acts that govern the use of securities as loan collateral. It also replaces securities settlement rules currently contained in provincial Business Corporations Acts.

The Task Force welcomes comments until July 30, 2004 on any aspect of the draft USTA and related material, and most specifically on the issues summarized in the Consultation Paper (under Part 3, B.). The proposed USTA is available on-line at www.osc.gov.on.ca.

Regulators Confirm Importance of STP to Canada's Capital Markets and Propose Mandating Same-Day Matching of Institutional Trades

Achieving industry-wide straight-through processing (STP) is important to maintaining the global competitiveness of the Canadian capital markets, say the CSA in a discussion paper released for comment April 16, 2004. In the paper, the CSA voice concerns about whether the securities industry in Canada is sufficiently prepared to reach industry-wide STP at the same time as the U.S. industry's STP implementation, scheduled for June 2005. The paper outlines key issues and seeks comment on proposed regulatory approaches to facilitate the industry's STP objectives.

MARK YOUR CALENDAR NOW DIALOGUE WITH THE OSC 2004

Monday November 1, 2004
at the Metro Toronto Convention Centre

For More Information, contact Louisa at 416 593-8053
or visit the OSC website at www.osc.gov.on.ca

In particular, the CSA propose to mandate a requirement that institutional trades be matched as soon as practicable after a trade is executed, but no later than the close of business on the day of the trade. The CSA paper is published together with a proposed *National Instrument 24-101 - Post-Trade Matching and Settlement*, a related *Companion Policy and a Request for Comment Notice*.

The comment period will expire on July 16, 2004. The documents are available on the OSC's Web site at www.osc.gov.on.ca.

ENFORCEMENT REPORTS

The following are summaries of recent enforcement proceedings and hearings before the Ontario Securities Commission. Copies of Notices of Hearing, Statements of Allegations, Reasons for Decisions and Orders referenced below are available on the Commission's website at www.osc.gov.on.ca.

OSC Releases Decision in the Matter of RS Inc. Decision on Credit Suisse First Boston

On June 25, 2004, the OSC released a decision today in the application by Credit Suisse First Boston (CSFB) to set aside a decision of Market Regulation Services Inc (RS) that had ordered the removal of Stikeman Elliott LLP as counsel to CSFB. The application was denied.

The Commission further found that the end of the solicitor-client relationship as such does not end the fiduciary duty prohibiting a lawyer from acting disloyally. The Commission agreed with the RS hearing panel that Stikeman Elliott was not prevented from acting against RS in general, but that Stikeman Elliott could not, in acting for CSFB, attack the very legal advice that it had previously provided to the TSE.

The Commission agreed with the Hearing Panel that removal was necessary to preserve public confidence in the administration of justice. The failure to so order would be viewed by the public as a failure to uphold the principle that "justice should not only be done but should be seen to be done."

OSC Approves Settlement Agreements in the Matter of Paradigm Capital Inc., Patrick McCarthy and Eden Rahim

At a hearing held June 11, 2004, the OSC approved settlement agreements between staff of the Commission and Paradigm Capital Inc., Patrick McCarthy and Eden Rahim. In the settlement agreement, parties agreed that the conduct of each of the respondents was contrary to the public interest. Paradigm was found to have failed to properly supervise and restrict the activities of McCarthy. McCarthy and Rahim were found to have participated in a transaction that resulted in shares being sold by persons who had knowledge of a material fact which had not been generally disclosed, to persons who had no knowledge of that fact.

The panel of Commissioners ordered that:

- Paradigm implement a revised policy with respect to the receipt of confidential material information while acting as an agent on behalf of an issuer; be reprimanded; make a settlement payment of \$55,755; pay \$30,000 in respect of the costs of the investigation and the proceeding;
- McCarthy take the Canadian Securities Course on Securities Law and Regulations; be reprimanded; pay \$30,000 in respect of the costs of the investigation and the proceeding; and that certain terms and conditions be placed on his registration;
- Rahim be reprimanded; pay \$30,000 in respect of the costs of the investigation and the proceeding, and that certain terms and conditions be placed on his registration.

OSC Issues Reasons for Sanctions Against Patrick Lett, Milehouse Investment Management Limited and Pierrepont Trading Inc.

The OSC issued reasons for sanctions June 9, 2004, in the matter of Patrick Fraser Kenyon Pierrepont Lett, Milehouse Investment Management Limited and Pierrepont Trading Inc. After considering submissions, the Commission issued sanctions on May 7, 2004 with reasons to follow.

The sanctions are:

- Milehouse and Pierrepont will cease trading in securities for 15 years;
- Lett will cease trading in securities for 10 years, subject to certain conditions;
- Lett will resign from any positions he holds as director or officer of any reporting issuer or registrant and is prohibited from any such position for 15 years;
- Lett is reprimanded; and
- Lett will pay the costs of staff's investigation and the hearing in the amount of \$150,000.

OSC Charges Defendants in the Discovery Biotech Inc. Matter

On June 2, 2004, a proceeding was commenced with the consent of the OSC in the Ontario Court, General Division, pursuant to S. 122 of the *Ontario Securities Act* against Discovery Biotech Inc. (Discovery) and Orest Lozynsky, Robert Vandenberg and Howard Rash.

Discovery and the three individuals are charged with trading in shares of Discovery without being registered to trade in securities, trading in securities of Discovery without having filed a prospectus with the OSC, and making certain prohibited representations respecting the future value of the securities and the listing of Discovery securities on a stock exchange. These acts are in violation of the *Ontario Securities Act*.

In addition, Lozynsky, Vandenberg and Rash, being directors and officers of Discovery, are charged with authorizing, permitting or acquiescing in the commission of the offences under the *Securities Act* noted above. The first appearance in this matter was held on July 6, 2004 at Old City Hall, 60 Queen Street West, Toronto, Ontario.

OSC Commences Prosecution and Commission Proceeding Against former Senior Managers of Atlas Cold Storage Income Trust

The Ontario Securities Commission has initiated a quasi-criminal prosecution against Patrick Gouveia, Andrew Peters, Ronald Perryman and Paul Vickery. These four individuals were former members of senior management at Atlas Cold Storage Holdings Inc. (Holdings), the operating entity of Atlas Cold Storage Income Trust (Atlas). Gouveia was the former Chief Executive Officer and a Director of Holdings. Peters was the Chief Financial Officer. Perryman was the Vice-President, Finance. Vickery was the Controller and latterly the Director of Business Controls.

The Commission has laid two charges that Gouveia, Peters, Perryman and Vickery violated section 122(1)(b) of the *Securities Act* personally and two further charges that they violated section 122(3) as directors or officers who authorized, permitted or acquiesced in the commission of an offence in relation to the filing of materially misleading annual financial statements by Atlas in 2001 and 2002.

The Commission also laid two charges that Gouveia, Peters and Perryman violated section 122(1)(b) personally and two further charges that they violated section 122(3) as directors or officers who authorized, permitted or acquiesced in the commission of an offence in relation to the filing of materially misleading financial statements by Atlas for the first two reporting periods of 2003.

The Commission has also issued a Notice of Hearing and staff of the Commission have filed a Statement of Allegations with the Commission against the four individuals in relation to the filing of misleading financial statements as alleged in the quasi-criminal charges.

The first appearance in the Ontario Court of Justice on the quasi-criminal charges was July 7, 2004 and the first appearance date on the Commission proceedings was July 9, 2004.

OSC Issues Management Cease Trade Orders Against Certain Insiders of Argus Corporation Limited

On June 3, 2004, a panel of Commissioners of the OSC made a final order prohibiting certain directors, officers and insiders of Argus Corporation Limited from trading in securities of Argus, subject to certain exceptions contained in the order. The prohibition will remain in force until two business days following the receipt by the Commission of all filings, including financial statements, that Argus is required to make pursuant to Ontario securities law.

The Commission made this order under paragraph 2 of subsection 127(1) of the *Securities Act*. The order has the effect of continuing the temporary order of the Director that was made on May 25, 2004.

OSC Issues Management Cease Trade Orders Against Certain Insiders of Hollinger Companies

Following a hearing held on June 1, 2004, a panel of Commissioners of the Ontario Securities Commission made three final orders under paragraph 2 of subsection 127(1) of

the *Securities Act*. Subject to certain exceptions contained in the orders, all trading in securities of each of the three companies noted below by the directors, officers and insiders named in the orders shall cease until two full business days following the receipt by the Commission of all filings, including financial statements, that each company is required to make pursuant to Ontario securities law:

- Hollinger Inc.
- Hollinger International Inc.
- Hollinger Canadian Newspapers, Limited Partnership

These orders continue the temporary orders made by the Director on May 18, 2004 respecting Hollinger Inc. and Hollinger International Inc., and on May 21, 2004 respecting Hollinger Canadian Newspapers, Limited Partnership.

OSC Commissioners Continue Management Cease Trade Order Against Nortel Insiders

Following a hearing held on May 31, 2004, a panel of OSC Commissioners made a final order under paragraph 2 of subsection 127(1) of the *Securities Act* that all trading by certain directors, officers and insiders of Nortel Networks Corporation and Nortel Networks Limited in securities of Nortel Networks Corporation and Nortel Networks Limited cease until two full business days following the receipt by the Commission of all filings, including financial statements, the corporations are required to make pursuant to Ontario securities law. This order continues the temporary order made by the Director on May 17, 2004.

Ontario Securities Commission Approves the Settlement between Staff and Michael Hersey in the Saxton Matter

On May 26, 2004, the Ontario Securities Commission approved the settlement between Staff of the Commission and Michael Hersey. Hersey has never been registered with the Commission. During the material time, Hersey was a licensed insurance agent.

Over three and a half years, Hersey participated in three illegal distributions, and engaged in unregistered trading of securities. Between 1995 and 1998, various Saxton companies issued securities. The sale of such securities raised approximately \$37 million from investors. The distributions of the Saxton securities did not comply with Ontario securities law. Between April 1995 and April 1996, Hersey sold in excess of \$2 million worth of the Saxton securities to over 30 Ontario investors. Among other things, Hersey misrepresented the nature and quality of the Saxton securities to his clients.

Between May and September 1998, Hersey sold Sussex International securities to his clients. The distribution of the Sussex International securities did not comply with Ontario securities law.

The Commission settlement hearing panel issued a 20 year cease trade order against Hersey (with the exception of certain trading in Hersey's personal accounts after five years). Hersey is prohibited from becoming or acting as an officer or a director of any issuer for 20 years.

R. v. Felderhof

Counsel appeared before Judge Hyrn on April 19, 2004 to set the trial date in the proceedings against John Felderhof. The trial will resume on December 6, 2004 for two weeks. It is expected that the trial will continue on February 28, 2005.

RECENT SPEECH

*Excerpts from an address by David A. Brown, Q.C.
Chair of the Ontario Securities Commission, to
Pricewaterhouse Coopers, May 27, 2004.*

A Cooperative Approach to Fighting Economic Crime

Some might say that economic crime and fraud is nothing terribly new. The issue is getting more attention than ever because of a recognition of its seriousness, and because it poses a greater challenge than ever. Companies have become more complex, and complexity lends itself to manipulation. Resources are at a greater premium, leading to the understaffing of internal audit functions. But fraud is a hard line-item to control; its secretive nature precludes any meaningful estimate of its actual cost and frustrates efforts at controlling it.

Internal controls are the most widely accepted means to detect fraud and prevent it. But in most cases of fraud, there *was* an internal control in place – one that should have prevented or detected the fraud, but didn't. And, as the PriceWaterhouseCoopers survey of 3600 companies in 50 countries last year pointed out, "even when companies have control systems to detect economic crime, these can often be rendered ineffective by management override or collusion."

There is one other major factor that has made more companies vulnerable to fraud – the connected economy. Information becomes more readily available and borders become less of a real barrier.

The PWC crime survey last year found that economic crime is a broad threat. In fact, 37 per cent of respondents report significant economic crimes over the previous two years. And according to the survey, no industry seems to be safe. It found that size is no defense – in fact, it just makes for a bigger target. Companies with more employees are more likely to have suffered from economic crime.

And it found that the impact on a company goes beyond the immediate financial cost. The real cost of fraud is not so easy to tally. It includes damaged reputation, diminished trust, and the related impact on morale and brand. As the PWC report pointed out: "The damage inflicted by economic crime goes far beyond direct monetary loss. Intangible assets, including business relationships, staff morale, reputation and branding are critical to any business. These can all be undermined by the occurrence or even the perception of fraud."

I hope the sponsors of this conference won't mind if I also include some information from a competitor of theirs, Ernst & Young. Just think of it as equal time. The E&Y report also found that corporate fraud is broadly based.

More than two-thirds of companies report having been victims, and fraud was not concentrated in any one geographic region.

The good news is that for the first time in 16 years of surveying on this topic, a majority of organizations indicate they have formal fraud prevention policies in place – compared to only a third that had policies in place two years ago.

The growth of economic crime may have continued unabated, except for two factors: 9-11 and Enron. 9-11 made it crucial for authorities around the world to facilitate the gathering and sharing of data about the movement of money. Enron put the issue of corporate integrity in the window. U.S. Federal Reserve Board Chairman Alan Greenspan has characterized Enron as a "tragedy," but one that "probably has created a positive set of forces to improve corporate governance." For regulators and other authorities dealing with this issue, it is now easier to focus attention on the problem, easier to achieve cooperation, and easier to obtain resources.

Last month, I attended a meeting of the International Organization of Securities Commissions, known as IOSCO, to address the issue of Parmalat – the Italian food giant that imploded in scandal late last year, causing billions of dollars of share value to evaporate into thin air. The IOSCO meeting was an example of the newfound spirit of global cooperation in countering corporate crime, fraud and money-laundering.

There are many benefits to globalization, but there's also a darker underside. Large-scale crime is as globalized as big business and it doesn't stop at borders. Enforcement can't stop at borders either. 9-11 made that clear, if there was any doubt before. World leaders have started looking at ways in which terrorism and global crime are financed and ways in which money is laundered by these organized groups.

And regulators have started to make the process of international cooperation in fraud cases work a lot faster than the creaky model we are used to. Let me give you an example. In an enforcement case that we were conducting recently, we needed to obtain information from the Bahamas, Liechtenstein, Luxembourg and Switzerland, all of which have secrecy laws. We were getting shut out. In time, we started to make some breakthroughs. Eventually, we got the information we needed to track transactions right through those jurisdictions. What made the difference? I'd like to think it was through the brilliance in our presentation to these authorities. But, in fact, what happened was a drive toward global cooperation on enforcement that stemmed from September 11th.

The response to 9-11 included blacklists of secretive, uncooperative jurisdictions. The Financial Action Task Force, set up by OECD countries, very quickly came out with such a list. Not much later, the Financial Stability Forum, which is a forum formed by the G-7 financial ministers, came up with a list of offshore jurisdictions.

IOSCO, which includes 115 securities commissions, also began to identify uncooperative countries. Countries started to react, and react very swiftly. There was almost an unprecedented cooperation from the so-called "secrecy



jurisdictions." Since then, many have dramatically reduced their secrecy laws and other impediments to cooperation.

So there are now fewer countries where illegal money can be moved around secretly and for the perpetrators to hide their identity. In fact, someone who is looking for one of these havens may well have to pause. Today's secrecy jurisdiction may be tomorrow's show-and-tell jurisdiction.

The response to 9-11 included something else that is vital to combating economic crime – a Multi-lateral Memorandum of Understanding on cooperation and enforcement, negotiated among all of the securities commissions. What is the real value of this? Look at it this way: Put together all of the securities commissions' enforcement arms in countries around the world, and that adds up to a formidable force of securities enforcement agencies. In fact, there's probably not another group like it around the world.

There are now 26 jurisdictions that have applied to participate and been accepted. Ontario and Quebec were two of the first signatories, and B.C. and Alberta have now been accepted as well. To their embarrassment, a number of countries, including some major countries, couldn't fit the bill. We've created a separate category for them – nations that want to be part of this initiative and have pledged to get their laws changed.

Given our efforts, how is Canada perceived internationally regarding enforcement? Last year, in examining our regulatory structure, the Wise Persons' Committee visited the U.S., the U.K., the European common market and Australia. They heard consistently that, looking at Canada as a whole, tougher enforcement of our securities laws is needed.

We have made significant strides in improving our enforcement efforts over the past few years. In fact, the OSC has obtained jail sentences in four of the last five cases in which we have sought a jail term.

In the past four years, we've successfully initiated proceedings or settled more than 100 separate actions. Bear in mind, most of those actions involve multiple respondents, as many as 24. This translates into an effective record of enforcement.

We've been able to cut our average time to complete investigations from 21 months to 13 months. And in bringing cases to trial and actually prosecuting them, we've cut our

average time by more than 25 per cent, from an average of 15 months to 11 months.

So there has been progress. But there is no denying that enforcement can still be significantly improved.

Look at the lack of vertical integration. In many locations — like Toronto — we have three levels of police force: the RCMP, the provincial police, and the Metropolitan police. Then, there is the provincial Attorney-General and the OSC. Look at the lack of horizontal integration, with separate operations by 13 provinces and territories — and a federal presence as well.

Working in sync, these agencies would constitute a phenomenal force. We need to bring the groups together and to establish a clearer responsibility and a clearer authority for all concerned. It is important to knit the enforcement community into a much more unified whole.

Potentially, our resources are enormous. Potentially, we can make it tougher than ever for fraudsters to operate in Canada. Now is the time to turn potential into reality, and raise the level of protection and enforcement to the heights that the current challenge demands.

Thank you.

(OSC Probes Information Management Practices) continued from page 1

"Currently, we are conducting a review of over 300 private placements and special warrant offerings reported to the TSX and are identifying a number of potential *Securities Act* violations similar to the activity identified in this matter. Market participants who are aware of improper trading activity associated with private placements or special warrants offerings may wish to avoid a full investigation by coming forward now and receiving credit for their cooperation," said Michael Watson, OSC Director of Enforcement. "We will be following up on our review with all appropriate action."

Sanctions have been issued against one company and two individuals in the first case heard by the Commission on such a matter. Staff of the OSC expects to bring a number of similar cases before the Commission in the near future.

Perspectives is published quarterly by the Communications Branch of the Ontario Securities Commission.

To be included on the mailing list for *Perspectives*, please contact us at:

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The OSC Website, www.osc.gov.on.ca includes:

Information on the OSC, Investor Information, Rules and Regulations,
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